

**CRESTON CITY WATER WORKS**

**INDEPENDENT AUDITOR'S REPORT  
BASIC FINANCIAL STATEMENTS,  
SUPPLEMENTARY AND OTHER INFORMATION  
SCHEDULE OF FINDINGS**

**YEAR ENDED JUNE 30, 2014**

## Table of Contents

Officials. ....	3
Independent Auditor's Report. ....	4-5
Management's Discussion and Analysis. ....	6-9
Basic Financial Statements:	
	<u>Exhibit</u>
Statement of Cash Receipts, Disbursements and Changes in Cash Balance . . . . . A. ....	10
Notes to Financial Statements. ....	11-16
Other Information:	
Budgetary Comparison of Schedule of Receipts, Disbursements and Changes in Balances - Budget and Actual (Cash Basis) . . . . .	18-19
Notes to Other Information - Budgetary Report. ....	20
Supplementary Information:	
	<u>Schedule</u>
Unaudited Schedule of Operating Statistics. .... 1. ....	22
Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i> . ....	24-25
Schedule of Findings. ....	26-27

## CRESTON CITY WATER WORKS

### OFFICIALS

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
<b>(Before January 1, 2014)</b>		
Lee McNichols.....	Chairman.....	December, 2013
.....	Trustee.....	December, 2016
Ken Sharp.....	Vice-Chairman.....	December, 2013
.....	Trustee.....	December, 2018
Cathy Dryden.....	Treasurer.....	December, 2013
.....	Trustee.....	December, 2016
William Stuart.....	Secretary.....	December, 2013
.....	Trustee.....	December, 2014
Valarie Allen.....	Trustee.....	December, 2018
Steve Yarkosky.....	Manager.....	Indefinite
Angie West.....	Office Manager.....	Indefinite
<b>(After January 1, 2014)</b>		
Lee McNichols.....	Chairman.....	December, 2014
.....	Trustee.....	December, 2016
Valarie Allen.....	Vice-Chairman.....	December, 2014
.....	Trustee.....	December, 2018
Cathy Dryden.....	Treasurer.....	December, 2014
.....	Trustee.....	December, 2016
William Stuart.....	Secretary.....	December, 2014
.....	Trustee.....	December, 2014
Ken Sharp.....	Trustee.....	December, 2018
Steve Yarkosky.....	Manager.....	Indefinite
Angie West.....	Office Manager.....	Indefinite



## MARTENS & COMPANY, CPA, LLP

CERTIFIED PUBLIC ACCOUNTANTS

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### Independent Auditor's Report

To the Board of Trustees of the  
Creston City Water Works

#### Report on the Financial Statements

We have audited the accompanying financial statement of the Creston City Water Works as of and for the year ended June 30, 2014, and the related notes to the financial statement.

#### Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statement in accordance with the cash basis of accounting as described in Note 1. This includes determining the cash basis of accounting is an acceptable basis for the preparation of the financial statement in the circumstances. This includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of a financial statement that is free from material misstatement, whether due to fraud or error.

#### Auditor's Responsibility

Our responsibility is to express an opinion on the financial statement based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements.

An audit includes performing procedures to obtain audit evidence about the amounts and disclosures in the financial statement. The procedures selected depend on the auditor's judgment, including assessment of the risks of material misstatement of the financial statement, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to Creston City Water Works' preparation and fair presentation of the financial statement in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Creston City Water Works' internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statement.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

## Opinions

In our opinion, the financial statement referred to above presents fairly, in all material respects, the cash basis financial position of the Creston City Water Works as of June 30, 2014, and the respective changes in cash basis financial position for the year then ended in accordance with the basis of accounting described in Note 1.

## Basis of Accounting

As described in Note 1, the financial statement was prepared on the basis of cash receipts and disbursements, which is a basis of accounting other than U.S. generally accepted accounting principles. Our opinion is not modified with respect to this matter.

## Other Matters

### Supplementary and Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statement which was prepared on the basis of cash receipts and disbursements. The statistical information included in Schedule 1 is presented for purposes of additional analysis and is not a required part of the basic financial statements. This information has not been subject to the auditing procedures applied in the audit of the basic financial statement and, accordingly we do not express an opinion or provide any assurance on it.

The other information, Management's Discussion and Analysis and the budgetary comparison information on pages 6 through 9 and 18 through 20 has not been subjected to the auditing procedures applied in our audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

## Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated August 26, 2014, on our consideration of Creston City Water Works' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering Creston City Water Works' internal control over financial reporting and compliance.

*Martens & Company, CPA, LLP*

West Des Moines, Iowa  
August 26, 2014

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

The Creston City Water Works provides this Management's Discussion and Analysis of its financial statement. The narrative overview and analysis of the financial activities is for the fiscal year ending June 30, 2014. We encourage readers to consider this information in conjunction with the Creston City Water Works' financial statements, which follow.

### **2014 Financial Highlights**

The Creston City Water Works general consumer water revenues decreased by \$13,903 from the previous fiscal year. The rural water sales decreased by \$21,505 from the previous fiscal year. Interest on investments increased \$1,975 from the previous year.

The Creston City Water Works' total disbursements decreased approximately \$2,017,000 from fiscal year 2013 to fiscal year 2014 due to completing major capital project activities in the fiscal year 2014. The Creston City Water Works also remitted approximately \$38,000 of additional sewer and garbage fees to the City as a result of higher collections.

The Creston City Water Works' total cash balance increased approximately \$118,000 from fiscal year 2013 to fiscal year 2014.

### **Using this Annual Report**

The annual report consists of a financial statement as well as other information as follows.

Management's Discussion and Analysis introduces the financial statement and provides an analytical overview of the Creston City Water Works' financial activities.

The Statement of Cash Receipts, Disbursements and Changes in Cash Balance presents information on the Creston City Water Works' receipts and disbursements, non-operating receipts and disbursements and whether the Water Works' cash basis financial position has improved or deteriorated as a result of the year's activities.

Notes to the Financial Statements provide additional information that is essential to a full understanding of the data provided in the financial statement.

Other information further explains and supports the financial statement with a comparison of the Creston City Water Works' budget for the year.

Supplementary information provides detailed information about the operating statistics and insurance coverage.

### **Basis of Accounting**

The Creston City Water Works maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the Creston City Water Works are prepared on that basis.

The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not represent financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles. Therefore, when reviewing the financial information and discussion within this annual report, the reader should keep in mind that limitations resulting from the use of cash basis accounting.

## Financial Analysis of the Creston City Water Works

### *Statement of Cash Receipts, Disbursements and Changes in Cash Balance*

The purpose of the statement is to present the receipts received by the Creston City Water Works and the disbursements paid by the Creston City Water Works, both operating and non-operating. The statement also presents a fiscal snapshot of the Creston City Water Works' cash balance at year end. Over time, readers of the financial statement are able to determine the Creston City Water Works' financial position by analyzing the increase and decrease in cash balance.

Receipts include metered and bulk water sales, fees for upkeep and/or upgrade of individual service lines, water turn on/off fees, rent for space on the water tower, taps and miscellaneous fees. A summary of cash receipts, disbursements and changes in the cash balance for the years ended June 30, 2014 and June 30, 2013 is presented below:

Changes in Cash Basis Net Position of Business Type Activities (Expressed in Thousands)		
	Year ended June 30,	
	2014	2013
Receipts:		
Program receipts		
Water utility receipts (all sources)	\$3,223	\$4,910
Sewer rental receipts collected for City	1,337	1,295
Garbage receipts collected for City	<u>610</u>	<u>607</u>
Total receipts	<u>5,170</u>	<u>6,812</u>
Disbursements:		
All water utility expenditures	\$3,121	\$5,176
Sewer rental expenditures remitted to City	1,324	1,294
Garbage expenditures remitted to City	<u>607</u>	<u>599</u>
Total disbursements	<u>5,052</u>	<u>7,069</u>
Increase (decrease) in cash balance	\$ 118	\$ (257)
Cash balance beginning of fiscal year	<u>1,786</u>	<u>2,044</u>
Cash balance end of fiscal year	<u>\$1,904</u>	<u>\$1,787</u>

The total business type activity receipts for the fiscal year were approximately \$5,170,000, which includes sewer and garbage collections that are in turn paid to the City of Creston, as compared to approximately \$6,812,000 collected the last fiscal year.

### **The Water Works Individual Major Funds**

The Creston City Water Works uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The focus of the Creston City Water Works funds is to provide information on near-term inflows, outflows, and cash balances of spendable resources. The following are the major reasons for changes in cash balances from the prior year for the Creston City Water Works major funds.

### **Creston City Water Works - General Fund**

The General Fund is the chief operating fund of the Creston City Water Works. At the end of the current fiscal year, the cash balance in the General Fund was approximately \$1,904,000, an increase of approximately \$118,000.

### **Budgetary Highlights**

In accordance with the Code of Iowa, the Creston City Water Works annually adopts a budget following the required public notice and hearings for all funds. Although the budget document presents functional disbursements by fund, the legal level of contract is at the aggregated function level, not at the fund or fund type level. The budget may be amended during the year utilizing similar statutorily prescribed procedures, ie; a required public notice followed by a public hearing. The Creston City Water Works did amend its operating budget at year end. The budget was approved and passed unanimously by the Creston City Water Works Board of Trustees.

### **Debt Administration**

At the year end, the Creston City Water Works did not have any debt.

### **Economic Factors and Next Year's Budget and Rates**

The Creston City Water Works Board of Trustees considered many factors when setting the 2014 fiscal year budget. The Creston City Water Works Board of Trustees is involved in one project:

Project #1  
12-Mile Lake Sediment Control Structure  
and Purchase of Land  
Estimated Costs \$800,000

This project has been approved and is under the guidance of Creston City Water Works Board of Trustees.

The Creston City Water Works Board of Trustees has reviewed the needs of all the projects budgeted



in for the 2013-2014 fiscal year. Portions of these projects will continue on through fiscal year 2014-2015.

In addition to the projects stated above, other items of importance to the Creston City Water Works Board of Trustees are return on investments and the cost of employee benefits.

These factors all contributed when adopting the fiscal year 2014-2015 budget. The budget includes all Business Type Activities, including Sewer, Garbage and Water expenditures. Steps implemented by the Creston City Water Works Board of Trustees, while taking into account increased costs of employee benefits, low returns on investments and the need to keep services at an acceptable level were also a factor in the year 2014-2015 fiscal year budget.

### **Contacting the Creston City Water Works Financial Management**

This financial report is designed to provide our rate-payers and creditors with a general overview of the Creston City Water Works finances and to show the Creston City Water Works accountability for the money it receives. If you have questions about this report or need additional information, contact Steve Yarkosky, General Manager, Creston City Water Works, 820 Park Street, P.O. Box 405, Creston, Iowa 50801.

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**CRESTON CITY WATER WORKS**
**Statement of Cash Receipts, Disbursements and  
Changes in Cash Balances**
**As of and For the Year Ended June 30, 2014**

Operating receipts:	
Charge for service	\$2,645,150
Miscellaneous	<u>192,514</u>
Total operating receipts	2,837,664
Operating disbursements	
Business type activities	<u>2,955,628</u>
(Deficiency) of operating receipts (under) operating disbursements	( 117,964)
Non-operating receipts (disbursements)	
Intergovernmental	343,715
Interest on investments	8,356
Sewer and garbage fees collected for the City	1,947,298
Consumer deposits	33,325
Capital outlays	( 134,047)
Sewer and garbage fees remitted to the City	( 1,931,134)
Deposit Refunds	<u>( 31,425)</u>
Net non-operating receipts (disbursements)	<u>236,088</u>
Change in cash balances	118,124
Cash balances, beginning of year	<u>1,786,534</u>
Cash balances, end of year	<u>\$1,904,658</u>
Restricted for customer deposits	\$ 212,331
Unrestricted	<u>1,692,327</u>
Total cash basis fund balances	<u>\$1,904,658</u>

See Notes to Financial Statements.

## **Creston City Water Works**

### **Notes to Financial Statements**

June 30, 2014

#### **(1) Summary of Significant Accounting Policies**

The Creston City Water Works is a governmental subdivision of the State of Iowa located in Union County. It was incorporated in the mid 1930's. The Creston City Water Works Board of Trustees is appointed by the Mayor of Creston and approved by the Creston City Council. The Creston City Water Works provides water services to Creston area residents and surrounding counties.

##### **A. Reporting Entity:**

The financial statement includes all funds of the Creston City Water Works. The Water Works has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the Water Works are such that exclusion would cause the Water Works' financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the Water Works to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the Water Works.

The Creston City Water Works is a component unit of the City of Creston.

##### **B. Measurement Focus and Basis of Accounting**

The Creston City Water Works maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the Creston City Water Works are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles.

Enterprise funds distinguish operating receipts and disbursements from non-operating items. Operating receipts and disbursements generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All receipts and disbursements not meeting this definition are reported as non-operating receipts and disbursements.

## **Creston City Water Works**

### **Notes to Financial Statements**

June 30, 2014

(1) Summary of Significant Accounting Policies - Continued

C. Cash Basis Fund Balances

In the financial statements, cash basis fund balances are classified as follows:

Restricted - Amounts restricted to specific purposes when constraints placed on the use of the resources are either externally imposed by creditors, grantors, or state or federal laws or are imposed by law through constitutional provisions or enabling legislation.

D. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Other Information. During the year ended June 30, 2014, disbursements did not exceed the amounts budgeted.

(2) Cash and Pooled Investments

The Creston City Water Works' deposits in banks at June 30, 2014, were entirely covered by Federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the members of the pool to insure there will be no loss of public funds.

The Creston City Water Works is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities: certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Trustees and the Treasurer of the State of Iowa; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; and certain joint investment trusts; and warrants or improvement certificates of a drainage district.

The Creston City Water Works' investments are categorized to give an indication of the level of risk assumed by the Creston City Water Works at year end. The Creston City Water Works' investment at June 30, 2014, consisted of Certificates of Deposits and are not subject to risk categorization.

Interest rate risk - The Creston City Water Works' investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) to instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days, but the maturities shall be consistent with the needs and use of the Creston City Water Works.

## **Creston City Water Works**

### **Notes to Financial Statements**

June 30, 2014

#### **(3) Pension and Retirement Benefits**

The Creston City Water Works contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by State statute to plan members and beneficiaries. IPERS issued a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. 9117, Des Moines, Iowa 50306-9117.

Most regular plan members are required to contribute 5.95% of their annual covered salary and the Creston City Water Works is required to contribute 8.93% of annual covered salary. Contribution requirements are established by State statute. The Creston City Water Works' contribution to IPERS for the years ended June 30, 2014, 2013, and 2012 were \$77,748, \$77,479, and \$67,359 respectively, equal to the required contribution for the year.

#### **(4) Other Post-Employment Benefits (OPEB)**

The Creston City Water Works is included in the City of Creston's health insurance plan. The City of Creston offers health insurance coverage to full time employees wishing to voluntarily retire prior to the age of 65 and wish to remain on the City employee health insurance plan. The city will make available single health insurance coverage for the retiree until he/she reaches the age eligible to receive Medicare or other Government insurance coverage.

There are 40 active employees for the City, 13 active employees for Waterworks and 1 retired employee.

Funding Policy - The contribution requirements of plan members are established and may be amended by the City. The City pays 90% of the premium for active employees while the employee is responsible for 10%. Retirees pay full premiums for single coverage. The City currently finances the retiree benefit plan on a pay-as-you-go basis.

	Plus Plan	Basic Plan	Value Plan
Deductible	\$600	\$1,200	\$2,000
Single Coverage	\$746	\$694	\$630
Family Coverage	\$1,859	\$1,728	\$1,706

## **Creston City Water Works**

### **Notes to Financial Statements**

June 30, 2014

(4) Other Post-Employment Benefits (OPEB) -Continued

For the year ended June 30, 2014 the City contributed \$1,132,786 to the plan.

(5) Related Parties

The City of Creston has title to all the land and buildings used by the Creston City Water Works. The Mayor appoints and the City Council confirms the appointments to the Water Works Board of Trustees.

The Creston City Water Works determines fees charged to users and also charges the City for usage. The Creston City Water Works collects sewage and garbage fees for the City of Creston. Funds collected are remitted to the City monthly. The Creston City Water Works remitted \$1,324,456 for sewer rental and \$606,678 for garbage collections to the City for the year ended June 30, 2014. The Creston City Water Works received from the City \$8,324 for water.

The Creston City Water Works and City of Creston are covered under the same property insurance policy. Each year the City pays the total premium and the Creston City Water Works reimburses the City for its share of the cost. In 2014, the Water Works reimbursed the City of Creston \$93,460 for insurance.

During the year ended June 30, 2014, the City provided employees of both the City and Creston City Water Works with payments of co-insurance and deductibles for health insurance. The Water Works remitted to the City \$ 225,280 for health insurance premiums for the year ended June 30, 2014. The City's plan is self-funded and pays claims from its employee benefits special revenue fund up to maximum limits and carried stop loss insurance for claims in excess of limits.

(6) Compensated Absences

Water Works' employees accumulate a limited amount of earned but unused leave hours for subsequent use or for payment upon termination, retirement or death. The accumulations are not recognized as disbursements by the Water Works until used or paid. The Water Works approximate liability for earned leave termination payments payable to employees at June 30, 2014, is as follows:

## **Creston City Water Works**

### **Notes to Financial Statements**

June 30, 2014

(6) **Compensated Absences - Continued**

<u>Type of Benefit</u>	<u>Amount</u>
Vacation	\$12,006
Sick leave	<u>74,755</u>
	<u>\$86,761</u>

This liability has been computed based on rates of pay as of June 30, 2014.

(7) **Risk Management**

The Creston City Water Works is exposed to various risks of loss related to torts; theft, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

(8) **Major Customer**

A material part of the Water Works' business is dependent upon Southern Iowa Rural Water Association (SIRWA), the loss of which could have a materially adverse effect on the Water Works. During the year ended June 30, 2014, SIRWA accounted for approximately 57% of the water sales. The Creston City Water Works has a contract to provide water to SIRWA through April, 2032.

(8) **Special Investigation**

The Water Works requested the Office of Auditor of State perform a special investigation of the Water Works as a result of concerns regarding certain purchases and other financial transactions authorized by the Water Works' former General Manager. The Auditor of State's special investigation identified improper and unsupported disbursements of \$89,837 between July 1, 2005 and November 16, 2012.

Copies of the Auditor of State's special investigation report were filed with the Union County Attorney's Office, the Attorney General's Office and the Division of Criminal Investigation.

The Water Works received notice in October 2013 of a lawsuit filed against the Water Works by the former general manager. The lawsuit alleges breach of employment contract and failure to pay wages owed. The lawsuit is currently in the preliminary stages. However, preliminary estimates are if the Water Works were to lose the lawsuit in every respect, the potential damages are in the range of \$127,000 to \$250,000.

## **Creston City Water Works**

### **Notes to Financial Statements**

June 30, 2014

(9) Subsequent Events

Management has evaluated subsequent events through August 26, 2014, the date on which the financial statements were available to be issued.

(10) Prospective Accounting Change

The Governmental Accounting Standards Board has issued Statement No. 68, Accounting and Financial Reporting for Pensions - an amendment of GASB No., 27. This statement will be implemented for the fiscal year ending June 30, 2015. The revised requirements establish new financial reporting requirements for state and local governments which provide their employees with pensions benefits, including additional note disclosures and required supplementary information.



## OTHER INFORMATION

# CRESTON CITY WATER WORKS

## Budgetary Comparison Schedule of Receipts, Disbursements and Changes in Balances Budget and Actual (Cash Basis) Other Information

Year Ended June 30, 2014

	<u>Actual</u>	<u>Less Funds Not Required To be Budgeted</u>	<u>Net</u>
Receipts:			
Water:			
Charges for services	\$4,592,448	\$1,947,298	\$2,645,150
Use of money and property	8,356	-	8,356
Intergovernmental	343,715	-	343,715
Miscellaneous	<u>225,839</u>	<u>-</u>	<u>225,839</u>
	5,170,358	1,947,298	3,223,060
Disbursements:			
Business type activities:			
Water	<u>5,052,234</u>	<u>1,931,134</u>	<u>3,121,100</u>
Excess Deficiency of receipts over (under) disbursements	118,124	16,164	101,960
Cash balances beginning of year	<u>1,786,534</u>	<u>-</u>	<u>1,786,534</u>
Cash balances end of year	<u>\$1,904,658</u>	<u>\$ 16,164</u>	<u>\$1,888,494</u>

See accompanying independent auditor's report.

# CRESTON CITY WATER WORKS

## Budgetary Comparison Schedule of Receipts, Disbursements and Changes in Balances Budget and Actual (Cash Basis) Other Information - Continued

Year Ended June 30, 2014

<u>Budgeted Amounts</u>		Final to Net Variance Favorable (Unfavorable)
<u>Original</u>	<u>Final</u>	
\$2,911,600	\$3,211,600	(\$ 566,450)
-	-	8,356
-	-	343,715
-	-	<u>225,839</u>
<u>2,911,600</u>	<u>3,211,600</u>	11,460
 <u>2,911,600</u>	 <u>3,211,600</u>	 <u>90,500</u>
 <u>\$ -</u>	 <u>\$ -</u>	 <u>\$101,960</u>

## **CRESTON CITY WATER WORKS**

### **Notes to Other Information - Budgetary Reporting**

June 30, 2014

The Creston City Water Works prepares a budget on the cash basis of accounting for all funds except sewer and storm water fees collected for and remitted to the City and submits it to the City Council. In accordance with the Code of Iowa, the City Council annually adopts a budget, which includes the Water Department, on the cash basis following required public notice and hearing. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon nine major classes of disbursements, known as functions, not by fund. The water department's disbursements are budgeted in the business type activities function. During the year, one budget amendment increased budgeted disbursements by \$300,000. The budget amendment is reflected in the final budgeted amounts.

During the year ended June 30, 2014, disbursements did not exceed the amount budgeted.

## SUPPLEMENTARY INFORMATION

# CRESTON CITY WATER WORKS

## Unaudited Schedule of Operating Statistics

	Year Ended June 30, 2014			
	Schedule 1			
	-----Year Ended June 30,-----			
	2014	2013	2012	2011
Number of customers	3,341	3,440	3,429	3,465
Number of gallons billed	1,423,761,103	1,406,565,240	1,386,587,800	1,265,128,102
Number of gallons pumped	1,454,582,000	1,435,617,000	1,431,365,025	1,305,635,520
% of gallons billed to total pumped	98%	98%	97%	97%

### Water rates in effect at June 30, 2014

Cubic Feet Used Per Month	Rate Per 100 Cubic Feet of Usage
0 - 2,000	\$3.24*
2,001 - 6,000	2.49
6,001 - 24,000	1.99
24,001 and over	1.59

\* Minimum charge per month is \$9.07

The Water Works and the City of Creston are covered under one insurance policy. The Water Works reimburses the City annually for its portion of the insurance premium. At June 30, 2014, the following coverages were in effect:

Fire and extended coverage:	
Buildings and contents	\$18,662,021
Liability:	
Umbrella excess policy	3,000,000
Linebacker liability	1,000,000
Workmen's compensation	Statutory
Comprehensive automobile policy	1,000,000
Employee Benefit Liability:	
Per occurrence	1,000,000
Aggregate	2,000,000
Employees crime coverage	200,000
Bond on Water Works manager	350,000

The foregoing operating statistics and insurance information are presented on the basis of unaudited records maintained in the Water Works office. The amounts and accuracy of the operating statistics were not investigated by the auditors.

See accompanying independent auditor's report.

## CRESTON CITY WATER WORKS



**MARTENS & COMPANY, CPA, LLP**

CERTIFIED PUBLIC ACCOUNTANTS

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Independent Auditor's Report on Internal Control Over  
Financial Reporting and on Compliance and Other Matters  
Based on an Audit of Financial Statements Performed in  
Accordance with Government Auditing Standards

To the Board of Trustees of the  
Creston City Water Works

We have audited, in accordance with U.S. generally accepted auditing standards in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, the financial statement of the Creston City Water Works, as of and for the year ended June 30, 2014, and the related notes to the financial statement, and have issued our report thereon dated August 26, 2014. Our report expressed an unmodified opinion on the financial statement which was prepared on the basis of cash receipts and disbursements, a basis of accounting other than U.S. generally accepted accounting principles.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statement, we considered the Creston City Water Works' internal control over financial reporting to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of the Creston City Water Works' internal control. Accordingly, we do not express an opinion on the effectiveness of the Creston City Water Works' internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Findings we identified a deficiency in internal control we consider to be a material weakness.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency in internal control described in Part II of the accompanying Schedule of Findings as item II-A-14 to be a material weakness.



## Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Creston City Water Works' financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards. However, we noted a certain immaterial instance of non-compliance or other matter which is described in Part III of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the Creston City Water Works' operations for the year ended June 30, 2014 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the Creston City Water Works. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

## Creston City Water Works' Response to Findings

Creston City Water Works' response to the findings identified in our audit is described in the accompanying Schedule of Findings. Creston City Water Works' response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

## Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of the testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of Creston City Water Works during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

*Martens & Company, CPA, LLP*

August 26, 2014

# CRESTON CITY WATER WORKS

## Schedule of Findings

Year Ended June 30, 2014

### **Part I: Summary of the Independent Auditor's Results:**

- a. An unmodified opinion was issued on the financial statements.
- b. The audit did not disclose any noncompliance which is material to the financial statements.

### **Part II: Findings Related to the Financial Statements:**

#### **Internal Control Deficiencies:**

II-A-14      Segregation of Duties - One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. The cash receipts listing, bank deposits and the posting of cash receipts to the cash receipts journal are all done by a limited number of people.

Recommendation - We realize that segregation of duties is difficult with a limited number of office employees. However, the City should review its control procedures to obtain the maximum internal control possible under the circumstances. The City could segregate duties to the extent possible with existing personnel and utilize administrative personnel or board members to provide additional control through review of financial transactions and reports.

Response - We will consider this.

Conclusion - Response acknowledged.

### **Part III: Other Findings Related to Required Statutory Reporting:**

III-A-14      Depository Banks - A resolution naming official depositories has been adopted by the board of trustees. The maximum deposit amounts stated in the resolution were not exceeded during the year ended June 30, 2014.

III-B-14      Certified Budget - Disbursements during the year ended June 30, 2014, did not exceed amounts budgeted in the business type activities function.

III-C-14      Questionable Disbursements - We noted no disbursements that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.

III-D-14      Travel Expense - No expenditures of Water Works' money for travel expenses of

spouses of Water Works' officials or employees were noted.

III-E-14      Business Transactions - There were no business transactions noted between the Creston City Water Works and Creston City Water Works officials or employees.

III-F-14      Bond Coverage - Surety bond coverage of Creston City Water Works's official and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.

III-G-14      Board Minutes - No transactions were found that we believe should have been approved in the Board minutes but were not.

The Water Works published all annual gross salaries as required by an Attorney General's opinion dated April 12, 1979.

Although the Board minutes were published, they were not published within fifteen days as required by Chapter 372.13(6) of the Code of Iowa.

Recommendation - We recommend the Creston City Water Works comply with Chapter 372.13(6) of the Code of Iowa.

Water Works Response - We will publish minutes as required.

Conclusion - Response acknowledged.

III-H-14      Deposits and Investments - The Water Works has adopted a written investment policy as required by Chapter 12B.10B of the Code of Iowa.

No instances of non-compliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the Water Works' investment policy were noted.

